

EXPOSURE OF PROPOSED NEW RULES AND SUNDRY AMENDMENTS TO THE RULES AND REGULATIONS OF THE COMMISSION

New Rules

1. Proposed Rules on Electronic Offerings
2. Proposed Rules on Regulation of Derivatives Trading (Re-Exposure)

Sundry Amendments

3. Proposed amendment to Rule 39- Annual Report
4. Proposed deletion of Rules 190 (1) and 216 (1)
5. Proposed amendment to Rule 300 – Pre-offer Waiting Period (Fixed Price Offers)
6. Proposed amendment to Rule 302 – Application Form

Details of the proposals are as follows:

New Rules

1. RULES ON ELECTRONIC OFFERING

Definitions

“e-O” or “Electronic Offering” means the use of the Internet (or other electronic means including but not limited to, mobile or USSD platforms) to display and/or provide access to prospectuses, offering memoranda or other disclosure/offer documentation, application and/or subscription forms or other documentation for the subscription to securities and related documentation used during an offer, subscription and payments for such electronic offerings by members of the public;

“ESP” means an Eligible Service Provider approved by the Commission;

“IPO” means Initial Public Offer;

“USSD” means Unstructured Supplementary Service Data;



Rules of General Application

1. Registration Requirements

- (1) Only ESPs duly registered with the Securities and Exchange Commission ("SEC", or "the Commission") are eligible to establish and operate e-O platforms.
- (2) An application for registration of an e-O platform shall be filed by an ESP on the prescribed form as provided in the Schedule to the Guidelines and shall be accompanied by the following documents (where applicable):
 - a. copy of the certificate of incorporation of the ESP certified by the company secretary;
 - b. two (2) copies of the Memorandum and Articles of Association and amendments (if any) of the ESP certified by the CAC;
 - c. latest copy of audited accounts or statement of affairs signed by its auditors and management accounts that are not more than 9 months old as at time of filing with the Commission;
 - d. two (2) copies of existing or proposed data protection policy, sustainability policy and code of conduct;
 - e. sworn undertaking to promptly furnish the Commission with copies of any amendments to its data protection policy, sustainability policy and/or code of conduct;
 - f. a copy of its company organogram (organization structure) and detailed particulars and profile of members of its board of directors and principal officers;
 - g. particulars of shareholders holding 5% and above of the equity shares of the ESP (where applicable);
 - h. confirmation that hyperlinking the Offer Documents to the Issuer's website is permitted and the Issuer's requirements, if any, for hyperlinking;
 - i. sworn undertaking to have/keep/maintain an electronic back-up as well as a remote back-up of such records and data/information



- received by it, as may be specified by the Commission from time to time;
- j. evidence of compliance with the prescribed minimum paid-up capital requirement for Exchanges and CTPs;
 - k. any other document or information required by the Commission from time to time.
- (3) The Commission shall within sixty (60) days or such further period as it shall deem fit, after the filing of an application referred to in Rule 1(2) of these Rules, make known its decision to either grant, or after appropriate notice and opportunity for hearing, deny registration of an e-O platform, unless the application is withdrawn by the applicant.
- (4) A notice under sub rule (3) of this Rules may contain the reasons why the Commission may not register the e-O platform and shall stipulate the time (not being less than fourteen (14) days from the receipt of the notice) within which representation may be made to the Commission in respect thereof.
- (5) The notice shall stipulate the time and place of the hearing referred to in sub rule (3).

2. Regulation of Activities

- (1) The ESP shall be responsible for the coordination and operation of the e-O as well as the implementation of security measures and systems (testing, contingency planning and decision-making);
- (2) An ESP shall have a disaster recovery plan that will ensure ability to respond to disaster or other emergency that might affect information system, data and/or operation of the e-O platform;
- (3) An ESP shall obtain from the relevant issuer and issuing house(s) the following documents in electronic form which shall be displayed on the e-O platform and made available to prospective investors in connection with any offer:
 - a. The approved prospectus, and/or any supplemental prospectus, placement memoranda, rights circular;
 - b. The subscription/application forms; and



- c. Any other relevant documents in connection with the offer (collectively called the "Offer Documents")

3. Obligations of the Issuing House(s), Issuer and/or Sponsor

- (1) The Issuing House(s) shall be responsible for creating awareness that the securities on offer can be subscribed to electronically.
- (2) The Issuer and Sponsor shall comply with these Rules and Regulations and other selling restrictions, publish information regarding the offer on its website to enable investors make an informed decision.
- (3) Notwithstanding the provisions of these guidelines, an Issuing House, Issuer and/or Sponsor shall comply with the provisions of the ISA, the SEC Rules and relevant exchange rules with regards to the approval of an Offer.
- (4) Prior to the commencement of the Offer, the Issuer and Issuing house(s) shall provide detailed instructions and other information relevant to the ESP's role in the e-O to the ESP(s) prior to the commencement of the offering. Such information shall include:
 - a. the Offer Documents;
 - b. the opening and closing date of the offer for the purposes of developing its website;
 - c. confirmation as to the announcement language to be used by the ESP for the Offer and details/information to be included on the application input screen of the e-Offering;
 - d. the date and time on which ESPs should post the Offer Documents and application on their websites;
 - e. disclaimers, disclosure statements, warnings or legends (as applicable), which the issuer and the Commission may require the ESP to include on the e-Offering platform;
 - f. any relevant consent(s) and/or prior approvals required to be obtained by the ESP from the Issuer;
 - g. details of pre-defined report specifications/formats (if required) for data submitted by ESP to Registrars;



- h. procedures for re-submission of application data (where permitted under the offer); and
- i. exceptions if any (e.g., missing data, errors) to the data submitted by the Issuer and Issuing House(s), the ESP shall be notified, and the exceptions rectified immediately.

3.2 Information to the Public

- (1) The Issuer shall post the particulars and details of its selected ESP on its website along with:
 - a. a list of all the available subscription channels;
 - b. a list of participating ESPs (where the offer is to be undertaken on more than one e-Offering platform). In this instance, the Platforms shall be able to interact with each other and provide for the aggregation of subscription data in a single database;
 - c. the offer open and close dates;
 - d. instructions for making applications; and
 - e. names and addresses of all the professional parties to the offer, as contained in the prospectus.

3.3 Contingency and Planning

- (1) The Issuing House(s), Issuer and Sponsors (where applicable) shall ensure or procure that there is a primary and secondary contingency plan in place to address and deal with any disruptions to the e-Offering whether operational, technological or otherwise.
- (2) The Issuer and ESP shall ensure that there is a minimum contingency plan of technology infrastructure as well as automated disaster recovery contingency plan.

Provided that, at all times, the primary responsibility for ensuring that the e-Offering platform works effectively shall be borne by the ESP.

3.4 Obligations and duties of the ESP

- (1) The ESP shall:
 - a. be responsible for the compliance and system integrity of the entire e-Offering platform;
 - b. ensure that the processes for collection and handling of applications from subscribers and the electronic interface of its website works effectively;
 - c. adhere to the Issuing House(s) and/or Issuer's instructions in connection with the coordination of e-Offering;
 - d. ensure that the Offer Documents are readily accessible on its website;
 - e. ensure that its computer systems have sufficient capacity and security to protect the integrity of the e-Offering transaction;
 - f. provide or procure adequate firewall and anti-virus software on the e-Offer platforms to ensure that information provided by subscribers on the platform is safe and secure;
 - g. ensure that the Offer Documents and application screen are complete, accessible, interactive, user friendly;
 - h. ensure that the Offer Documents on the e-Offering platform are displayed or made available at the same time as they are made available to the public by the issuer;
 - i. ensure that all information and announcements provided by the Issuer and the Issuing House(s) to the ESP, to be included on its e-Offering platform in accordance with these Rules are legible and in clear English language;
 - j. in collaboration with the relevant professional party(ies), immediately cease to accept applications through its e-Offering platform or website (as applicable) where the said platform fails to provide subscribers with proper access to the Offer Documents;



- k. include a disclaimer on its e-Offering platform to the effect that, no applications or monies shall be accepted once offering closes, or where the ESP has any reason to believe that the e-Offering documents or processes for collection and handling of applications have been tampered with;
- l. provide access to information required by the Issuing House(s), the Issuer and the Sponsor (where applicable) to enable them monitor the e-Offering. Such information shall include the level of application and the volume the ESP processes during the period of the e-Offering;
- m. maintain subscription data for at least 10 years; and
- n. ensure that the following organizations are granted access to the portal on the e-Offering platform through which information can be transmitted, downloaded or viewed:
 - (i) the Commission;
 - (ii) the Issuing House(s);
 - (iii) the Issuer;
 - (iv) the Sponsor (where applicable)
 - (v) the Registrar

3.5 The Design of the e-Offering Platform shall:

- a. give subscribers access to:
 - i. general information regarding the Offer;
 - ii. the application input screen; and
 - iii. download, view and print the Offer Documents;
- b. include relevant contact information for technical support, frequently asked questions, queries and information in connection with the operation of the e-Offering platform or the ESP's website;
- c. provide for electronic online payment options which shall be seamlessly integrated with the e-Offering platform;
- d. allow integration with identity management systems such as the BVN database for the purpose of Know Your Customer verification;



- e. integrate with the depository to enable electronic crediting of approved allotments to subscribers' depository accounts
- f. permit subscribers to select a broker of their choice for the purpose of the electronic crediting of the approved allotment;
- g. provide mandatory information fields for subscribers to supply:
 - i. surname and other names in the case of individuals
 - ii. full company name and registration number in the case of corporate subscribers
 - iii. Bank Verification Number (BVN) or any other biometric numbering system as may be approved by the Commission from time to time
 - iv. bank name and account numbers of subscribers
 - v. mobile telephone number and or email address
- h. provide for the upload of Provisional Rights Allocation for Rights Issues by the relevant Registrar to the Issue;
- i. mandatorily require subscribers and end-users to confirm the following before permitting submission of the application:
 - (i) that the subscriber has been provided with sufficient opportunity to access the Offer Documents and the information disclosed therein;
 - (ii) that the subscriber has read and agrees to be bound by the terms and conditions for using the platform and the offer documents;
 - (iii) that the information provided by the subscriber is to the best of the applicant's knowledge, true and accurate in all material respects; and
 - (iv) that the subscriber is legally eligible to participate in the offer.
- j. provide for an automated printable confirmatory message to be issued to successful subscribers on the application screen as soon as their application is completed;
- k. permit subscribers to print a copy of the relevant application screen or page containing the details of information submitted by the subscriber;
- l. not include any promotional message or statement(s) which are not factually accurate; and without the prior approval of the Commission.



- m. include information relating to:
 - (i) the eligibility criteria for subscribers;
 - (ii) relevant disclaimers and warnings informing subscribers that any information outside the Offer Documents is not part of the public offer documents and the securities are offered solely on the basis of the information in the Offer Documents;
 - (iii) instructions and information for subscribers outlining the procedures and any requirements subscribers shall comply with in order to use the e-Offering platform;
 - (iv) the process /procedure a subscriber shall follow to make a valid application, including the issuer's terms and conditions;
 - (v) the timetable for the offer; including deadlines for submission of applications and making payments;
 - (vi) the use of the e-Offering platform and a disclaimer to be approved by the Commission;
 - (vii) information on sources where the subscriber may obtain more information on the issuer; and
 - (viii) a statement to the effect that, the e-Offering platform belongs to the ESP (not the Issuer) and that, in using the e-Offering platform, the ESP is a service provider and an agent to the Issuer.

3.6 Other Matters

- a. All Offer Documents shall be in English and shall be accessible by hyperlink on the ESP's e-Offering platform and website.
- b. The e-Offering platforms shall, in relation to the Offer Documents, allow subscribers:
 - (i) search for defined expressions;
 - (ii) find information in the document and contain prompts which enable easy reading of the documents; and



(iii) zoom in and out of the documentation provided.

c. SEC Rule 300 on Pre-offer waiting period (Fixed Offers) shall not apply to e-Offerings.

Justification

The e-O platform will translate the current paper-based process of securities offerings into electronic form via electronic display of offer documents, subscription and payment through a combination of web portals, mobile applications, USSD and other electronic means.

The Rules aim at providing a framework for the establishment and regulation of e-O service providers and to guide issuers, Issuing Houses and other stakeholders involved in the e-O process in the Nigerian Capital Market.

2. PROPOSED RULES ON REGULATION OF DERIVATIVES TRADING (RE-EXPOSURE)

LEGEND: Additions are underlined
Deletions are ~~struck through~~

The following rules were exposed in September 2018. However, due to the inclusion of some comments received from stakeholders and further review by the Rules Committee, there is a need to re-expose the rules to reflect the new amendments for the information of the public.

Outline

- i. Definition of terms
- ii. Applicability
- iii. Registration Requirements
- iv. Trading and Investing in Derivatives
- v. Clearing and Settlement
- vi. Participants
- vii. Surveillance
- viii. Position Limits
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- xi. Risk Management
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- xvi. Transaction Fees
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1. DEFINITION OF TERMS

Additional Margin means additional collateral required ~~from participants or clients by Derivatives Clearing Members and Derivatives Trading Members~~ to protect themselves against default by the participants or clients.

Call Option is a right but not an obligation to buy an underlying asset at a pre-agreed price, time and quantity.

Call-Put Ratio is the ratio of traded call options to traded put options at a given pre agreed price, time and quantity.

CCP means the Central Counterparty appointed by an exchange to clear its derivatives contracts.

Client or Clients means any person for to whom a participant acts in relation to effecting trading, clearing and settlement of ~~provides securities services in Exchange Traded derivatives transactions Market~~.

Close out means the cancellation of a position in one direction with an equal and opposite position

Contract means Exchange Traded Derivatives Contract

Contract Code means a unique code given to every Exchange Traded Derivatives Contract

Contract Life/Tenor means the period between when a contract is issued and when it expires or reaches maturity.

Cost of Carry means the cost of carrying the underlying asset until the contract expires.

Default Fund is fund managed by the CCP, contributed to by Derivatives Clearing Members and the CCP to protect against exposures resulting from default.

Derivatives means any financial instrument or contract that creates rights and obligations and whose value depends on or is derived from the value of one or more underlying asset, rate or index, or a measure of economic value or on a default event.

Derivatives Clearing Member means an entity authorized by a CCP to perform clearing services either on its own account or on behalf of Derivatives Trading Members or clients

~~**Derivatives Trading Member** means an entity registered by the Commission to trade in derivatives for its account and on behalf of clients but is not authorized to clear trades through a CCP.~~

Dealing Member for the purpose of these rules means an entity registered by the Commission and a registered member of an Exchange, which has obtained a dealing license to execute trades for propriety accounts or on behalf of its clients but is not authorized to clear trades through a CCP unless it is also a Derivatives Clearing Member.

Exchange Traded Derivatives Contract means standardised derivatives contracts traded on a recognized exchange and cleared through a CCP.

Expiry Day means the last day after which the contract expires and is no longer available for trading.

Expiry Month means the months in which the contract is expected to expire.

~~**Initial Margin** means margin provided by participants and clients before taking position in derivatives.~~

Initial margin means collateral collected to cover potential changes in the value of each participant's position over the appropriate close-out period in the event the participant defaults.

~~**Hedging** means taking position in derivatives by participants or clients who have exposure to the underlying in order to manage risk.~~

Leverage means total outstanding position of a participant in derivatives in relation to its net liquid capital.

Listing Day means the first day on which the contract is listed and made available for trading

Mark to Market means daily calculation of gains and losses of outstanding positions as a result of actual changes in the underlying or market prices of the underlying.

Mark to Market Model means the methodology used for marking to market outstanding positions of participants and clients.

Multiplier is the number of underlying contained in a single derivatives contract.

OTC Derivatives means derivatives contracts agreed between parties directly without going through an Exchange.

Option means a contract where a holder has a right but not an obligation to buy or sell an underlying at a pre-agreed price, time and quantity.

~~**Participants** refer to Derivatives Trading Members and Derivatives Clearing Members.~~

~~**Participant** refers to a Dealing Member of an Exchange and Derivatives Clearing Member~~

Position means an obligation or right of a person arising from derivatives trading.

Position Limit means level of ownership or control of derivative contracts that a participant, group of participants, client or group of clients shall not exceed.

Put Option is a right but not an obligation to sell an underlying asset at a pre-agreed price, time and quantity.

Settlement Style/Method means medium of settlement e.g. cash settlement, physical delivery etc.

~~**Speculation** means taking position in derivatives by participants or clients who do not have positions in the underlying in order to make profit.~~

Strike Price means a price at which an option holder can exercise his option.

Termination of Trading means the exact day and time when the contract will stop trading.

The Commission means Securities and Exchange Commission

The Exchange refers to Securities, Commodities or Futures Exchange where derivatives are listed and/or traded

Trade repository is an entity that maintains a centralised electronic database of transaction data

Trading Hours means period of the day within which the contract will be traded on an exchange.

Trading System means the infrastructure to be deployed by the Exchange to trade the contracts.

Underlying means the financial instrument, commodities, index, exchange rate, interest rate and other products or components in which a derivative is based.

Variation margin means margin that is required from participants ~~margin that is transferred between participants~~ and clients with open positions to reflect current exposures resulting from actual changes in the ~~underlying~~ or market prices of the derivatives contracts or underlying as the case may be.

2. APPLICABILITY

These Rules shall apply to:

1. Exchange Traded Derivatives and
2. OTC Derivatives where specifically mentioned

3. REGISTRATION REQUIREMENTS

(1) The Commission's approval shall be sought and obtained prior to the introduction of any contract.

(2) An application for registration of a contract shall be filed with the Commission by or on behalf of an exchange with the following documents:

- a. SEC Form.....
- b. Information Memorandum – An information memorandum shall provide the following:
 - i. Contract specification – Any contract filed with the Commission shall where applicable, have the under listed specifications:
 - Name of the Contract
 - Name and specification of the underlying
 - Type of Contract

- Contract Code
 - CCP that will clear the contract
 - Trading Hours
 - Termination of trading
 - Settlement Style/Method
 - Multiplier
 - Listing Day
 - Expiry Day
 - Expiry Months
 - Contract Life/Tenor
 - Mark to Market model
 - Actions to be taken on single stock derivatives where there are corporate actions
 - Any other specification applicable to the contract.
- ii. The safeguards and the risk protection mechanisms adopted by the Exchange to ensure market integrity, protection of investors and smooth and orderly trading.
 - iii. The trading infrastructure and surveillance system to be deployed by the Exchange to effectively monitor trading.
 - iv. Target investors.
 - v. Any other documents/information required by the Commission from time to time.
- (3) The contract shall pass an economic test that shall be determined by the Commission from time to time. The test shall be designed to ensure that the contract is structured:
- a. To solve a particular problem.
 - b. In such a way that market forces will determine its price and the price of the underlying.
 - c. In such a way that it is not susceptible to market manipulation.
- (4) The Exchange shall have a framework for the regulation of the derivatives segment separate from the framework governing the cash market.
- (5) All contracts shall be assigned a Legal Entity Identifier code
- (6) Once the Commission approves a contract, it shall become the intellectual property of the originating exchange.

4. REGISTRATION REQUIREMENTS OF DERIVATIVES CLEARING MEMBER

Eligibility

Only banks licensed by Central Bank of Nigeria are eligible to register as derivatives clearing members

Registration Requirements

- 1. An application for registration as derivatives clearing member shall be filed on the appropriate SEC Form accompanied by:**
 - a. A minimum of two sets of completed Form SEC to be filed by sponsored individuals
 - b. A copy of certificate of incorporation certified by the Corporate Affairs Commission; where a copy not certified is filed, the applicant shall present the original copy for sighting by an authorized officer of the Commission
 - c. A Copy of Memorandum and Articles of Association certified by the Corporate Affairs Commission which among others shall include the power to act as a derivatives clearing member
 - d. A copy of CAC Form containing the particulars of directors certified by the Corporate Affairs Commission
 - e. Copy of latest audited accounts or audited statement of affairs for companies in operation for less than one year
 - f. Profile of the bank covering among others brief history of the company, organizational structure, shareholding structure, principal officers
 - g. Fidelity bond issued by the Nigerian Deposit Insurance Corporation
 - h. Sworn undertaking to keep proper records and render returns
 - i. Evidence of minimum paid up capital as stipulated by the Central Bank of Nigeria
 - j. sworn undertaking to keep proper records and render returns as stipulated by the Commission
 - k. sworn undertaking to abide by the Act and the rules and regulations of the Commission;
 - l. any other information or documents that may be required by the Commission from time to time
- 2. The sponsored individuals shall pass a special examination on derivatives to be conducted by the Commission**



3. The Bank shall provide evidence of an agreement with a central counterparty to provide clearing services.
4. Where a bank, registered as a Capital Market Operator intends to take up derivatives clearing as an additional function, an application shall be filed to the Commission for registration of that function.

5. TRADING AND INVESTING IN DERIVATIVES

- (1) No participant or any capital market operator shall trade in Exchange Traded Derivatives without prior registration by the Commission.
- (2) Funds shall only invest in derivatives if it is expressly stated in their Trust Deeds.
- (3) Where an underlying security is suspended from trading or delisted, contracts on such underlying shall cease to trade.
- (4) Exchange Traded Derivatives can only be traded on Exchanges recognized by the Commission.

6. CLEARING AND SETTLEMENT

- (1) All Exchange Traded Derivatives Contracts shall be cleared by a recognized CCP.
- (2) All standardized OTC Derivatives Contracts shall be cleared by a recognized CCP
- (3) The Commission shall issue guidelines on standardized OTC Derivatives Contracts from time to time.
- (4) Clearing derivatives shall be in line with the the provisions of the Act, SEC Rules and Regulations, and the rules of the relevant CCP.
- (5) Where physical delivery is required, the Exchange and/or the CCP shall make adequate arrangement for such delivery and ensure compliance with specification.
- (6) The arrangements referred to in number 5 above shall include place, time, quantity and quality and any other specifications as contained in the contract.

7. PARTICIPANTS

- (1) No person(s) shall trade on Exchange-Traded Derivatives either for proprietary accounts or on behalf of clients except entities registered with a recognized Exchange and/or CCP as Derivatives Trading Members Dealing Members and/or Derivatives Clearing Members.
- (2) No person(s) shall clear Exchange Traded Derivatives or OTC Derivatives except entities registered as Derivatives Clearing Members.



- (3) Participants shall promptly provide complete and accurate information about clients and their trading activities to the Commission as the need arises in accordance with the Act and SEC Rules and Regulations.
- (4) Participants shall comply with all relevant provisions of the Act and SEC Rules and Regulations, whether or not expressly stated in these regulations.

8. SURVEILLANCE

- (1) The Exchange shall have the responsibility for market surveillance to ensure derivatives prices reflect demand and supply and that all forms of market manipulations are prevented.
- (2) The surveillance systems shall be designed to detect:
 - a. Open positions, cost of carry, volatility and closing prices of the underlying.
 - b. Activities in the derivatives market vis-à-vis the spot market.
 - c. Timing of disclosure by issuer of the underlying where applicable shall be monitored.
 - d. Strike prices with large open positions.
 - e. Large trades, call-put ratios and exercise patterns.
- (3) The surveillance systems shall be able to:
 - a. Capture and process client details.
 - b. Develop databases of trading activity by participants and clients.
 - c. Generate trading pattern in individual contracts or group of contracts by participants and clients over a period.
 - d. Generate the pattern of trading in a contract over a period giving such details as the purchases, sales, positions and open interest held by different participants and clients.
 - e. Detect any form of breach of the laid down rules and regulations
- (4) Where the underlying is traded in more than one exchange or the participants are members of more than one exchange, the relevant exchanges shall share relevant information to avoid supervisory arbitrage.

9. POSITION LIMITS

- (1) The Exchange shall:
 - a. Set position limits to prevent participants and clients from holding positions large enough to control and/or manipulate the underlying.



- b. Set stringent position limit on participants and clients related to issuers whose securities represent the underlying or determines price of underlying.
- c. Notify the Commission on position limits prescribed, methodologies and rationale used for determining the limits.
- d. Monitor compliance with position limits and sanction any defaulting participants.
- e. Report to the Commission participants or clients that owns up to 5% or more of total open interest of a particular contract.

(2) Position limits shall be set for each contract based on the quantity of the underlying and trading volume.

10. LEVERAGE

(1) The Exchange shall:

- a. Require participants to limit aggregate derivatives exposure from their proprietary positions to a percentage of their net liquid asset.
- b. From time to time determine the maximum exposure applicable to participants.
- c. Liaise with the CCP to determine the applicable leverage.
- d. Provide the market with the methodology for calculating net liquid asset from time to time.

(2) A Derivatives Clearing Member may limit the aggregate exposure arising from the proprietary positions of its Clients and Derivatives Trading Members.

11. DISCLOSURE

(1) Participants shall disclose their outstanding derivatives exposures to the Commission on a quarterly basis ~~on a periodic basis as may be determined by the Commission~~. The disclosure shall include but not be limited to the following information:

- a. List and description of proprietary and clients' outstanding positions.
- b. Outstanding derivatives exposure from proprietary and clients' positions.
- c. Profit or loss resulting from proprietary positions.
- d. Proprietary and clients outstanding positions as a percentage of net liquid capital, where applicable.
- e. Estimated maximum loss that could be incurred from proprietary outstanding positions and its effect on the financial position.

- (2) Participants shall disclose their outstanding derivatives exposure from proprietary positions in their quarterly and annual financial statements.
- (3) The outstanding exposure shall be determined in accordance with International Financial Reporting Standards (IFRS).
- (4) Participants shall provide full disclosure of contract specifications and accompanying risks to clients before accepting orders from the clients.
- (5) Participants shall provide statements with the following information to their existing clients on a monthly basis:
 - a. Outstanding position of the clients.
 - b. Outstanding balance in the clients' margin account.
 - c. Profit made or loss incurred by clients.
 - d. Closed out or liquidated positions of the client.

12. RISK MANAGEMENT

- (1) Participants shall:
 - a. Have risk management units within their organizations.
 - b. Have comprehensive risk management frameworks for managing derivatives related risks. The framework shall include but not limited to the following:
 - i. The officer responsible for coordinating risk function
 - ii. Reporting line
 - iii. Risk appetite and risk tolerance for all classes of risks
 - iv. Risk register
 - v. Roles and responsibilities of every staff including board members on risk management
 - c. Include risk management report in their annual financial statements.

~~13. DEFAULT OF CLIENTS~~

- ~~(1) A client shall be in default if it fails to fulfil any of its contractual obligations.~~
- ~~(2) Where a client is unable to meet its obligation, its Derivatives Trading Member or Derivatives Clearing Member shall within 24 hours notify the exchange and/or CCP.~~
- ~~(3) The Exchange and/or CCP shall take appropriate step to close out, auction or liquidate the position of the defaulting client.~~
- ~~(4) The CCP shall use the initial margin deposited by the client to bear the cost of auctioning, closing out or liquidating the position of the defaulting client.~~
- ~~(5) The cost of closing out, auctioning or liquidating the position of defaulting clients shall be directly related to or reasonably expected to have resulted from the process.~~

~~14. DEFAULT OF DERIVATIVES TRADING MEMBERS~~

- ~~(1) A Derivatives Trading Member shall be in default if it fails to fulfil any of its contractual obligations~~
- ~~(2) Where a Derivatives Trading Member is unable to meet its obligation, its Derivatives Clearing Member shall within 24 hours notify the Exchange and/or the CCP.~~
- ~~(3) The Exchange and/or CCP shall take appropriate steps to closeout, auction or liquidate the proprietary position of the defaulting Derivatives Trading Member.~~
- ~~(4) The CCP shall use the initial margin deposited by the Derivatives Trading Member to bear the cost of auctioning, closing out or liquidating the position of the defaulting member.~~
- ~~(5) The cost of closing out, auctioning or liquidating the position of a defaulting Derivatives Trading Member shall be directly related to or reasonably expected to have resulted from the process.~~
- ~~(6) The Exchange shall provide guidelines or procedures for the transfer of client's account of defaulting derivatives trading member.~~

~~15. DEFAULT OF DERIVATIVES CLEARING MEMBERS~~

- ~~(1) A Derivatives Clearing Member shall be in default if it fails to fulfil any of its contractual obligations.~~
- ~~(2) Where a Derivatives Clearing Member is unable to meet its obligation, the Exchange and/or the CCP shall take appropriate steps to closeout, auction or liquidate the proprietary positions of the Derivatives Clearing Member.~~
- ~~(3) The CCP shall use initial margin deposited by the Derivatives Clearing Member to bear the cost of auctioning, closing out or liquidating the position of the defaulting Derivatives Clearing Member~~
- ~~(4) The cost of auctioning, closing out or liquidating shall be directly related to or reasonably expected to have resulted from the process.~~
- ~~(5) The CCP shall open a separate trust account with a bank into which shall be paid all margins held by the CCP on behalf of the defaulting Derivatives Clearing Member.~~
- ~~(6) The CCP shall appoint a trustee to manage the trust account based on instructions of the CCP~~
- ~~(7) The trustee shall after settling all liabilities and cost arising from default of the Derivatives Clearing Member pay the residual funds to the defaulting Derivatives Clearing Member.~~

- (8) ~~If funds and assets of the Derivatives Clearing Member are not sufficient to meet up with its obligations and liabilities, the default management procedure of the CCP shall apply.~~

16. MARGIN AND COLLATERAL

- (1) A CCP shall:
- a. Receive and maintain initial margin from participants and clients immediately before accepting to clear contracts from them are consummated.
 - b. Pay to or receive from participants and clients, variation margins for gains or losses resulting from mark to market of positions.
 - c. Hold initial margin posted by participants and their clients
 - d. Have adequate arrangements to segregate its own resources from collateral of participants and clients.
 - e. At least once every business day, mark to market outstanding positions and make margin calls if need arises.
 - f. Not create or permit to exist any lien or other encumbrance on initial margin posted by participants and clients.
- (2) Participants may request for additional margin from clients to protect themselves against default.
- (3) A Derivatives Clearing Member shall:
- a. Not use margins posted by clients and Derivatives Trading Members to finance its own trade or operate its own business.
 - b. Segregate its resources from additional margin posted by clients and Derivatives Trading Members.

17. TRANSACTION FEE

- (1) The Commission shall:
- a. Charge fees for registration of contracts
 - b. Issue guidelines on fees for trading and clearing of contracts in the secondary markets.

18. REPORTING OF OTC DERIVATIVES

- (1) Participants and other registered capital market operators shall report all OTC Derivatives transactions to a Trade Repository or an Exchange as the case may be



in accordance with guidelines issued by the Commission from time to time. The report shall include:

- a. the entry into of an agreement or contract for the sale or purchase of a derivatives contract or product, however concluded by the parties and however described;
 - b. a change in the beneficial ownership of derivatives contracts between parties one of whom is a Participant;
 - c. the modification, assignment or termination of an agreement or contract for the sale or purchase of a derivatives contract or product, however described;
 - d. Legal Entity Identifier code
- (2) For the purposes of these Regulations and any guidelines issued by the Commission, a person that reports details of a derivatives transaction on behalf of a counterparty shall not be considered to be in breach of any restriction on disclosure of information imposed by any contract or by any legislative, regulatory or administrative provision. Where that person is a corporate entity, no liability resulting from that disclosure lies with it or its directors or employees.
- (3) Participants shall keep records that demonstrate compliance with the requirements of these Rules.

19. SANCTIONS

Any person who violates any provision of these rules and regulations shall be liable to a penalty of not less than N1,000,000 and a further sum of not more than N25,000 for every day of default

3. PROPOSED AMENDMENT TO RULE 39- ANNUAL REPORT

Full Text of the Existing Rule –

- (1) The annual report to be filed with the Commission shall in all material facts comply with the relevant accounting standard. It shall also make disclosures of its unclaimed dividend fund with respect to bank balance, investments and earned income by way of notes to the audited accounts and other periodic reports filed with the Commission.



- (2) The annual reports shall be filed with the Commission, not later than ninety (90) days after the financial year end in line with the provisions of CAMA;
- (3) The chief executive officer and chief financial officer or officers or persons performing similar functions in a public company shall in filing the annual account, attach a duly signed certification letter to the matters specified in section 60(2) of the Act;
- (4) The auditor to the public company shall be registered by the Commission in line with Section 62 of the Act;
- (5) The auditor of a public company shall in his audit report to the company issue a statement as to the existence, adequacy and effectiveness or otherwise of the internal control system of the company;
- (6) The annual report shall state the level of compliance of the public company with the Code of Corporate Governance for public companies as contained in schedule X of these rules and regulation.
- (7) Any company who fails to file its annual report with the Commission as in (1) above shall be liable to a fine of N1million and the sum of N25,000 for every day the default continues.

Proposed Amendment –Creation of sub-rule (8)

A public company shall not later than thirty days before the due date, apply for extension to file its audited financial statement/annual report. Such application shall state the reason(s) for the inability to file within time and shall be supported with relevant documentary evidence. In granting the application for extension, the Commission may consider the following:

- (a) Occurrence of an unforeseen circumstance;
- (b) National emergency;
- (c) Intervention by a regulatory agency.

Proposed Amendment- Creation of sub-rule (9)

A public company whose application has been granted for extension of time to file its audited financial statements under these rules, shall be required to publish a notification of its failure to file on the due date in a National newspaper and on the company's website.



Proposed Amendment- Creation of sub-rule (10)

Where a public company fails to file its audited financial statements on or before the due date, the Commission may direct that trading on its shares be suspended and may impose any other sanction as it deems fit. Suspension of trading may also apply where a company has been granted an extension but fails to file at the expiration of the extension period.

Justification –*Despite the Commission’s zero-tolerance to late and non-filing of financial statements/annual reports by public companies, the Commission is mindful that certain unforeseen circumstances may warrant the granting of extension of time to a public company to file same.*

However, the Commission is fully committed to taking appropriate action by imposing sanctions that could include suspension of the trading of the shares of a public company whose financials are not released to the investing public as at when due.

4. PROPOSED DELETION OF RULES 190 (1) (a & b) AND 216 (1) (a & b)

Full text of existing Rule 190 (1) (a): Trading Rules

All trading on the floor of an exchange shall be presided over by a chairman who shall be a senior management staff of an exchange and registered by the Commission. He shall preside over the daily trading sessions on the floor of an exchange and shall be bound in the performance of his duties by the rules of the exchange and the principles of equity and fairness required under the Act and these rules and regulations.

Full text of existing Rule 190 (1) (b): Qualifications of the chairman

The qualification of the chairman shall be as in rule 20 of these rules and regulations. In addition he shall possess a minimum of a diploma/certificate in computer science and one year practical experience in an electronic trading system.

Full text of existing Rule 216 (1) (a): Trading Rules

All trading on the floor of an exchange shall be presided over by a chairman who shall be a senior management staff of an exchange and registered by the Commission. He shall preside over the daily trading sessions on the floor of an exchange and shall be bound in the performance of his duties by the rules of the



exchange and the principles of equity and fairness required under the Act and these rules and regulations.

Full text of existing Rule 216 (1) (b): Qualifications of the chairman

The qualification of the Chairman shall be as in rule 20 of these rules and regulations. In addition he shall possess a minimum of a diploma/certificate in computer science and one year practical experience in an electronic trading system.

Proposed amendment: Deletion of Rule 190 (1) (a): Trading Rules

~~All trading on the floor of an exchange shall be presided over by a chairman who shall be a senior management staff of an exchange and registered by the Commission. He shall preside over the daily trading sessions on the floor of an exchange and shall be bound in the performance of his duties by the rules of the exchange and the principles of equity and fairness required under the Act and these rules and regulations.~~

Proposed amendment: Deletion of Rule 190 (1) (b): Qualifications of the chairman

~~The qualification of the chairman shall be as in rule 20 of these rules and regulations. In addition he shall possess a minimum of a diploma/certificate in computer science and one year practical experience in an electronic trading system.~~

Proposed amendment: Deletion of Rule 216 (1) (a): Trading Rules

~~All trading on the floor of an exchange shall be presided over by a chairman who shall be a senior management staff of an exchange and registered by the Commission. He shall preside over the daily trading sessions on the floor of an exchange and shall be bound in the performance of his duties by the rules of the exchange and the principles of equity and fairness required under the Act and these rules and regulations.~~

Proposed amendment: Deletion of Rule 216 (1) (b): Qualifications of the chairman

~~The qualification of the Chairman shall be as in rule 20 of these rules and regulations. In addition he shall possess a minimum of a diploma/certificate in computer science and one year practical experience in an electronic trading system.~~



Justification –*During the call-over trading system, Exchanges were required to appoint a chairman who presides over daily trading sessions in order to ensure compliance with regulations. Due to recent technological innovations, trading now takes place electronically and as a result, there is no need for such a position.*

5. PROPOSED AMENDMENT TO RULE 300 - PRE-OFFER WAITING PERIOD (FIXED PRICE OFFERS)

Full Text of Existing Rule 300:

There shall be at least one-week pre-offer period before the opening of the offer. For the purpose of this rule, it shall be the period from the date of the execution of offer documents to the date an offer opens provided that where price is discovered through book building, this rule shall not apply

Proposed Amendment:

There shall be at least ~~one-week~~ three (3) days pre-offer period before the opening of the offer. For the purpose of this rule, it shall be the period from the date of the ~~execution of offer documents~~ issue of the prospectus to the date an offer opens provided that where price is discovered through book building, this rule shall not apply”.

Justification

To align this rule with the provision of Section 89 of the ISA. Also, three (3) days is enough for investors to become aware of the offer.

6. PROPOSED AMENDMENT TO Rule 302 - APPLICATION FORM

Full text of Existing Rule 302 (b)(ii) and (c):

- (b) Applications shall be rejected for any of the following reasons and any allotments made contrary thereof shall be null and void:
 - ii. omission of signature;
 - vii. printed signature;
- (c) Photo/electronic copies of application forms shall be an acceptable mode of application provided that all instructions for completing the application form are complied with and signed normally by the applicant.

Proposed Amendment



- b) Applications shall be rejected for any of the following reasons (as applicable) and any allotments made contrary thereof shall be null and void:

(ii) Omission of Signature/Bank Verification Number

- (c) Photo/electronic copies of application forms shall be an acceptable mode of application provided that all instructions for completing the application form are complied with and signed normally by the applicant.

Provided that for an e-Offering, a Bank Verification Number (BVN) shall be provided in place of signature.

Justification

To accommodate the use of BVN in place of signatures for KYC documentation on e-Offer platforms.